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UNCLAS HARARE 000763

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR FLORIZELLE LISER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ETRD](#) [ZI](#)

SUBJECT: Zimbabwe's Stock Market: Illusory Gains

1. Comment: Even though headlines boast of huge windfalls for equity investors, share prices on the Zimbabwe Stock Exchange (ZSE) have sunk in real terms since 1998. Apparently, the country's high inflation and macroeconomic distortions have duped wishful traders. End comment.

ZSE in Nominal Terms

2. In local currency (and nominal) terms, the ZSE's industrial index appears to have risen sharply over the past five years:

1/98 -	7,896
1/99 -	7,068
1/00 -	16,774
1/01 -	26,354
1/02 -	46,149
1/03 -	134,416

. . . and more recently:

4/03 -	187,000
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ZSE in Real Terms

3. Conversely, the index has shed 20 percent since 1998 in inflation-adjusted Zimdollars. Yet Zimbabwe's Consumer Price Index is a conservative inflation measure. It reflects products unavailable at controlled prices as well as subsidized fuel, food and energy. Therefore, we consider dollarization a more dependable deflator. By converting the index into U.S. dollars at the above intervals, we see that its value has fluctuated wildly, but fallen:

1/98 -	471
1/99 -	191
1/00 -	409
1/01 -	374
1/02 -	134
1/03 -	84

4/03 -	138
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Both rising revenue projections for exporters (the official rate has devalued from 55 to 824:1) and a Zimdollar recovery (from 1605 to 1360:1 since Jan. 1) seem to have triggered recent bullish sentiment, pushing the index up this month.

Comment

4. As we have often argued, high inflation and macroeconomic distortions play tricks on Zimbabweans, making them feel less impoverished than objective analysis would suggest. Equity investors are no exception. (Many Zimbabweans also believe their automobiles are gaining value, a similar illusion.)

5. Undoubtedly, fortunes have been made in the ZSE. With daily fluctuations reaching 20 percent, it's a day-trader's paradise. But it has not been a reliable haven for buy-and-hold investors. Many would have done better hoarding U.S. dollars. Of course, it is unsurprising that listed companies have lost value while the economy has retracted 30-40 percent. In a "normal" economy, Zimbabwean blue chips might tempt value-oriented investors (with price/earnings ratios often around 4-8). But in an economy plummeting by over a percent each month, the ZSE remains a speculator's play.

Sullivan